

## The Populist Threat

All politicians know how difficult it is to take a position that is not popular with the public. If even autocrats must consider the will of the people in certain situations, you can imagine how carefully democratic leaders, whose jobs depend on the public's support, must weigh every decision they make against public opinion.

This month, U.S. President Barack Obama had his first run-in with the enormous force of public opinion. The anti-crisis measures directed at saving the largest financial institutions adopted in the fall by the administration of former President George W. Bush -- many of which were continued by the Obama administration -- have turned out to be extremely unpopular. In part, this is because the proposal to use taxpayer money to bail out unprofitable firms is a bad idea. Moreover, a major part of the \$170 billion allocated for the bankrupt AIG ended up in the hands of its counterparties, such as Goldman Sachs, Citi and Bank of America. In other words, the government compensated AIG's business partners for losses incurred as a result of doing business with AIG.

Part of the problem is also that in order to save the financial system as a whole, it is sometimes necessary to bail out individual companies that don't necessarily deserve the aid. This is done to avoid a chain reaction that could lead to a meltdown of the entire financial system. And every such episode only increases the public's dissatisfaction with politics in general. Last week, we witnessed highly critical hearings in the U.S. Congress, a bill to slap a 90 percent tax on executive pay bonuses for companies receiving federal bailout funds and a defensive stance taken by the Obama administration, all of which show that the government takes public opinion -- and public indignation -- very seriously.

Voter anger in the United States threatens the existence of financial institutions in their current form. After the 1929 stock market collapse, Wall Street's economic, intellectual and political influence also took a beating, and it was only fully restored in the mid-1980s. Current events could take a significant toll on that institution again.

The threat of populism is even stronger in Russia. In the months ahead, public opinion will push the government into inflationary spending and protectionism. Of course, nobody likes inflation. Protectionism is an even more politically and economically dangerous issue. The only economically justifiable use of protectionism is to assist a new manufacturing sector to gain a foothold in global markets. Instead, the crisis gives special interest lobbyists a chance to exploit the public's dissatisfaction with the economy to serve their own narrow protectionist interests.

Until recently, Russia's authorities had managed to cope with the public's demands. But now, almost all of the populist promises Prime Minister Vladimir Putin made last autumn -- to help businesses across the board and to prevent a devaluation of the ruble -- have been rescinded in one form or another.

In one case, President Dmitry Medvedev took the initiative by declaring that it would be impossible to maintain the ruble's artificially high exchange rate. In other cases, economic ministers and advisers corrected Putin's promises in favor of greater budgetary restraint. That delineation of roles continues to this day. Putin promises to extend aid to industry and social groups, and everybody else makes sure that nothing derails the government's conservative monetary policies and budgetary discipline.

But what happens if Putin finally wins out? Crises are a good time for populism.

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